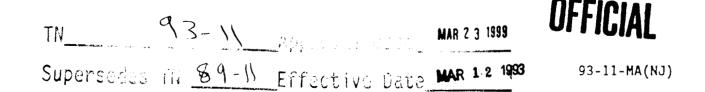
to inpatients not possessing such materials, and other medical care materials. The purchase cost of blood and blood components shall be excluded.

- (c) The invoice/inventory cost and related revenue of all Medical and Surgical Supplies for which a separate charge is made to a patient for the use or consumption of the supply must be reported in the Medical and Surgical supplies or Drugs Sold to Patients cost and revenue centers.
- (d) Medical and Surgical Supplies issued by Central Supply Services or Pharmacy for which a separate charge is not made to a patient must accounted for interdepartmental transfer as an invoice/inventory cost to the cost center using the supplies and materials. The cost of reusable patient non-charge items used by more than one functional center must remain in or be transferred to the Central Supply Services cost center. The cost of reusable patient non-charged items used by one functional center should be reported in that center. The cost of other Medical and Surgical Supplies not requisitioned from Central Supply Services and for which a separate charge is not made to a patient must be reported in the functional cost center in which the supplies and/or materials are consumed.



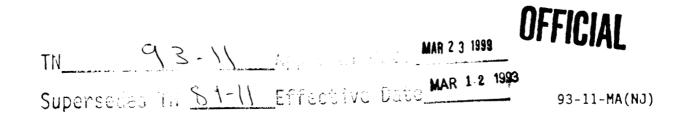
(e) The overhead associated with the issuing of Medical and Surgical Supplies shall be reported in the Central Supply Services or Pharmacy cost centers. Except for reusable supplies in (d) above and differences between beginning and end of year inventories, no Medical and Surgical Supplies shall be reported in the Central Supply Services or Pharmacy cost centers.

6.24 Non-Medical and Non-Surgical Supplies

Non-Medical and Non-Surgical Supplies include the invoice/inventory cost of supplies, instruments, and minor equipment (other than Medical and Surgical Supplies) required for the operation of a hospital for purposes other than the direct provision of care to a patient are reported in the using cost and revenue center. All rebates and quantity purchase discounts shall be offset against these costs.

6.25 Purchased Services

Purchased Services include the cost of all services purchased that could be accomplished by a hospital's own employees but for which the hospital elects to contract (not necessarily with a formal contract). All physician services shall be classified as physician compensation.



6.26 Major Moveable Equipment

Major Moveable Equipment, as defined in section 6.8 are expenses to be included in the costs of each center at historical depreciation costs (for both owned and capitalized leased equipment) plus a price level replacement cost premium, as discussed in section 6.8 and operating lease expenses. Interest expense incurred through purchase or capitalized leases of Major Moveable Equipment shall not be included with Major Moveable Equipment costs since the use of price level depreciation of such equipment for the financial elements is intended to replace this financial requirement of hospitals and provide adequate funds to replace equipment at the expiration of useful life.

6.27 Reports of costs and revenues

(a) The financial elements shall take into account a facility's income from all sources, including specific purpose grants and other funds from governmental sources, but excluding income and principal from board or donor restricted funds, gifts and special fund raising projects. Expenses incurred and revenues generated by a hospital for items not included in the definitions of Services Related to Patient Care (i.e. Routine Services, Ambulatory Services, Ancillary Services, Patient Care General Services, and Institutional Services) shall be classified as either other operating expenses and revenues or non-operating revenue and shall be accounted for separately to determine if and how they shall be applied to Costs Related to Patient Care and the Capital Facilities Allowance to determine the

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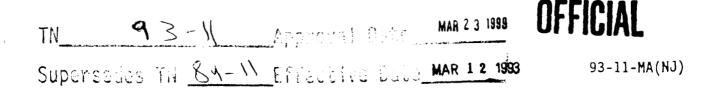
hospital's total financial elements or the Current Cost Base. (For PCBs established using data from all Other Operating and Non-Operating Revenues and Expenses reported as Standard Hospital Accounting and Rate Evaluation (SHARE) cost center costs and "expense recoveries" shall be treated as Case B, as defined herein). There are three cases into which such reconciliations are classified:

- 1. Case A Expenses and revenues related to activities which the hospital has selected to engage in but which are not an integral part of, or necessary for, the provision of patient care. Such expenses and revenues are netted against each other. Gains are applied as reductions to the Current Cost Base used to determine hospital payment rates, but any losses are not applied.
- 2. Case B Expenses and revenues related to activities which the hospital has elected to engage in and which are an integral part of, or necessary for, the provision of patient care. Such expenses and revenues are netted against each other. Losses are applied as increases to the Current Cost Base and gains are applied as reductions.
- 3. Case C Expenses and revenues related to activities which are specifically excluded under the State rules. Expenses and revenues shall not be netted against each other. Neither gains nor losses shall be applied in determination of the Current Cost

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- (b) Items of other operating expense and revenue shall be excluded from Services Related to Patient Care reporting centers. Other operating expenses and revenues so determined, in addition to non-operating revenues, shall be classified to account for all revenue and expense transactions of the hospital's Unrestricted Fund per the hospital's financial statements. Accounting differences between the hospital's financial statements and the Financial Elements Report shall be reconciled.
- (c) Other operating expenses and revenues and non-operating revenues shall be categorized below as:
 - 1. Excluded health care services;
 - 2. Education and research;
 - 3. Sales and services not related to patient care;
 - 4. Patient convenience items; -
 - 5. Administrative items; and
 - 6. Other income.



(d) Expenses and revenues of these items are netted against each other and the resulting total gains subtracted from or total losses added to Costs Related to Patient Care and the Capital Facilities Allowance to determine the hospital's Current Cost Base, depending on the Case (A, B, or C) into which the item is classified in Sections 6.27 through 6.33. Items not listed in Sections 6.27 through 6.33 shall be assigned to the case whose definition in Section (c) of this Section, best matches the nature of the item.

6.28 Excluded Health Care Services

- (a) Non-Acute Care Services provided by a hospital such as skilled nursing care (approved or unapproved), intermediate care, residential care services, long term psychiatric care and long term rehabilitation and intermediate care services are not properly acute, hospital functions, and hence shall be excluded and treated as Case C. Sufficient accounting records shall be maintained to account for the costs of such operations and such costs shall be excluded from Costs Related to Patient Care by cost center per Sections 5.11 and 5.13.
- (b) Organ Donations: Organs acquired by a hospital and donated to a pool or patient at another hospital are not properly service related to care of patients at the donating hospital, and hence costs and revenues shall not be included in the service definitions. The acquisition costs incurred shall be accounted for in accordance with

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the definition of the Organ Acquisition cost center but not reported therein. However, costs of such donated organs shall be applied as increases to Costs Related to Patient Care and Revenues and shall be applied as offsets (Case B).

- (c) Blood: In order to encourage hospital solicitation of blood donations, the purchase cost of whole blood or the equivalent units of blood extender and/or plasma shall be excluded and treated as Case C.
- Provisions of Health Care Services to Another Health Care Facility (d) r or Shared Services: Where a hospital care facility utilizes the laboratory, data processing, physical therapy department, or other services of a hospital, such costs shall not be included in the Costs Related to Patient Care of the hospital providing the services. The associated costs (including overhead) and revenue shall be excluded from the definitions of those centers in the providing hospital and shall be treated as Case B.
- (e) Physician Fees Remunerated to a Hospital: Where a physician's compensation arrangement with a hospital requires some or all of the physician's fees received directly from patients to be turned over to the hospital, such fees shall not be included in Revenue Related to Patient Care and are treated as Case B.

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- (f) Excluded Ambulatory Services Outpatient Renal and Home Dialysis:

 The cost and revenue related to these services shall be treated as

 Case C. Revenues and expenses are netted, and neither gains nor

 losses shall be added to the Preliminary Cost Base. Sufficient

 accounting records shall be maintained to account for the costs of

 such operations and such direct and indirect cost shall be excluded

 from Costs Related to Patient Care.
- (g) Excluded Ambulatory Services; HealthStart Maternity Care Health Support Services: The revenues and expenses associated with the provision of these services shall be treated as Case C, netted against each other, with neither gains nor losses added to the Preliminary Cost Base.
- (h) Excluded Ambulatory Services; HealthStart Pediatric Continuity of Care: In hospitals with salaried pediatricians, revenues and expenses associated with the non-institutional Medicaid capitated fee shall be treated as Case C and netted against each other. Gains and losses shall be excluded from the Preliminary Cost Base.

6.29 Education and Research

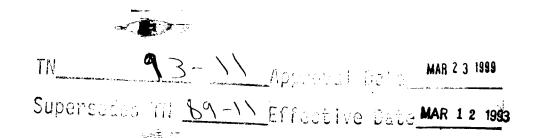
(a) Approved Education and Research Income such as grants, or contract payments, tuitions and fees received as direct support for approved educational and research programs (with the exception of those from the Graduate Medical Education Program for primary care residency

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programs in Family Practice, Internal Medicine, Pediatrics or Obstetrics/Gynecology) (see section 6.73) are used to offset such expenses and treated as Case B. Transfers of Specific Purpose Fund Revenues to the Unrestricted Fund shall be reported as non-operating revenue.

- (b) Non-Approved Education and Research (not approved in accordance with section 6.17) costs and revenues up to the amount of such costs are excluded. Overhead expenses shall be included in the costs of such program as Case A.
- (c) Salaried house physicians hired by the hospital to supplement house coverage of attending physicians or patient units such as residents of non-hospital programs, shall be included as Case B. Coverage of emergency services and other ambulatory and ancillary services by such physicians shall be included in the cost center definition of these services.
- 6.30 Sales and services not related to patient care
 - (a) Provision of General Services to an External Organization: The provision of data processing, laundry, housekeeping, managerial or other general services by a hospital to an organization other than





another health care facility shall be excluded and treated as Case A. Costs of such arrangements should include associated overhead and be reported in accordance with the reporting of related organizations (see section 6.12).

- (b) Sale of Medical Supplies (other than for an episode of hospital care) to patients such as take-home drugs, excluding those items where it would be medically unreasonable to limit the patient's use to the episode of hospital care, and others shall be excluded. Take-home supplies for renal dialysis and home health care shall be included where included in the provisions of Medicare HIM-29 and HIM-11 (Case A).
- (c) Sale of Scrap revenue shall be excluded from the revenue center and treated as Case B.
- (d) Medical Records Transcription for patients, their legal advocates, or other non-hospital personnel shall be excluded. Costs (to be reported to the revenue received unless direct costing is available) and revenue shall be treated as Case A.
- (e) Cafeteria operations, including vending machines, shall be treated as Case C, except for the subsidization of employee meals and meals for students in approved programs. Cafeteria operating losses shall be apportioned among employees, students and others. Subsidization of employee (including resident) meals shall be included as an

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